Central Bank Weekly - 28th March 2025

PREVIEWS

POTENTIAL RBNZ GOVERNOR APPOINTMENT (TUE): Following the abrupt resignation of RBNZ Governor Orr three weeks ago, New Zealand's Finance Minister Willis has not yet received a recommendation from the RBNZ Board on who should serve as the temporary replacement. According to a spokesperson cited by Bloomberg, the minister is awaiting the board's suggestion and will make a decision "as soon as practicable" once it is received, but no appointment will be made before April 1. The appointment of a temporary governor is necessary until a permanent successor is named. The RBNZ Board is responsible for making the recommendation, which the finance minister must then approve. No further details or timelines have been provided regarding the decision-making process or potential candidates under consideration.

ECB MINUTES (THU): As expected, the ECB pulled the trigger on a 25bps reduction to the Deposit Rate, taking it to the upper limit of the estimated neutral range. Greater attention fell upon the Governing Council's decision to tweak its policy statement so that it reads "monetary policy is becoming meaningfully less restrictive" (prev. "monetary policy remains restrictive"). Elsewhere, the Bank opted to reiterate its data-dependent and meeting-by-meeting approach, whilst stating that it will not pre-commit to a specific policy path. For the accompanying macro projections, the headline 2025 inflation forecast was raised to 2.3% from 2.1%, 2026 held at 1.9% and 2027 trimmed to 2.0% from 2.1%. On the growth front, policymakers cut their 2025 and 2026 growth views whilst holding 2027 at 1.3%. At the follow-up press conference, President Lagarde remarked that the statement language tweak was not an innocuous change and word changes have meaning – any details of the debate around this could be of note for the market. She added that the ECB is now moving towards a more 'evolutionary approach'. With regard to the policy decision, all policymakers, with the exception of Austria's Holzmann (who abstained) backed the announcement. Lagarde suggested that the GC could cut again or pause its cutting cycle depending on the data. The fact that Lagarde classified the policy discussion as "lively" and "intense" suggested upcoming decisions will become more contentious. In the aftermath of the release, source reporting noted that April is set to see a showdown on whether to reduce rates. Any colour on the arguments made around pausing or extending the rate-cutting cycle will be of interest to the market. However, given the fluidity of the trade environment (the minutes will be released after the April 2nd "Liberation Day") and the raft of ECB speak we have seen since the meeting, the account will likely be deemed as stale in some quarters.

REVIEWS

PBOC MLF REVIEW: The PBoC this week introduced a new auction-based pricing mechanism for its 1-year medium-term lending facility (MLF), allowing banks to bid at different interest rates. Desks suggest this signals a shift away from using the MLF rate as a key policy guide – something that has been in the works for months. Analysts at ANZ Bank believe that this change, alongside a surprise CNY 450bln liquidity injection, suggests a more neutral monetary stance amid tariff concerns and rising market borrowing costs.

NORGES REVIEW: Overall, largely as expected with the Norges Bank leaving rates unchanged at 4.50% in line with the view of most desks (reminder, some still looked for a 25bps cut as guided in January). The hold was justified by inflation picking up and being "markedly higher than expected". Despite this, the Norges Bank still takes the view that the policy rate can be cut in 2025 and then gradually over the next few years. However, but again largely as expected, the repo forecasts were subject to a hawkish adjustment with the Q4-2025 rate at 4.21% (prev. 3.80%); i.e. pricing points to potentially two cuts (but skewed towards just one) by the end of 2025 vs the three cuts across 2025 implied by the December MPR. Within the statement, despite the inflationary pressures, the commentary highlighted that trade restrictions could result in an economic downturn which may pressure the Norwegian economy. As such, the underlying narrative from the Norges Bank is to await further clarity on recent inflationary pressures and global macro uncertainty. Elsewhere, SEB's calculation of the new repo path points to an end-2024 policy rate of 4.05% with a 25bps cut priced in September and another likely in December.

BANXICO REVIEW: Banxico cut rates by 50bps to 9.00% in a unanimous decision, something which was expected by most analysts (two analysts surveyed by Reuters expected no change). Accompanying the release, it repeated that "looking forward it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes." In addition, it said the Mexican economy is expected to exhibit weakness once again in Q1 '25, and given the uncertainty around US tariffs, it unsurprisingly said it poses significant downward risks. Banxico's inflation forecasts remain unchanged, though they have been extended out to Q1 '26, and is still forecasting convergence to 3.0% in headline CPI inflation by Q3 '26, and core by Q2 '26. Amid the repeated guidance, Rabo Bank is adjusting its forecast and now sees a 50bps at the next meeting and adds a further 25bps cut, which brings Rabo to expect five more cuts in 2025 with the terminal rate seen at 7.50%. Ahead, Rabo's base case assumes Mexican goods do not see 25% sweeping tariffs by the US but rather see an effective tariff rate accounting for reciprocal tariffs, sector-specific tariffs, and sector-specific exemptions. As a result of that, Rabo initially expects to see USD/MXN trading sideways around 21.0, but if 25% is this case, could see USD/MXN move to 23.0, with risk skewed towards further MXN depreciation. As the final scenario, and in the unlikely situation that all tariffs are permanently removed, Rabo could see USD/MXN trade back down to the low 19s.

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