Central Bank Weekly - 11th April 2025

Previewing RBA Minutes, BoC, ECB, CBRT; Reviewing RBNZ, RBI

PREVIEWS

RBA MINUTES (TUE): RBA will release the Minutes from the policy meeting which concluded on April 1st. The RBA decided to maintain the Cash Rate at 4.10% which was unanimously expected given that the central bank had just delivered a cut at the last meeting in February and voiced cautiousness regarding future cuts. The language from the central bank provided little clues on future policy adjustments as it noted that the outlook remains uncertain, underlying inflation is moderating and sustainably returning inflation to target is the priority. Furthermore, it also stated the board’s assessment is that monetary policy remains restrictive. RBA also said that monetary policy is well-placed to respond to international developments if they were to have material implications for Australian activity and inflation, as well as noted the continued decline in underlying inflation is welcome, but there are nevertheless risks on both sides with the board cautious about the outlook. Furthermore, it stated the board needs to be confident that this progress will continue so that inflation returns to the midpoint of the target band on a sustainable basis but acknowledged inflation could move in either direction. RBA Governor provided very little clues on future policy during the post-meeting press conference. She noted the chance that there is more strength in the economy than seems and stated the board will continue to look at the data, while she added the board did not discuss a rate cut and has not made up its mind on a May move. Bullock also stated they are not endorsing the market path on future rate cuts and the board did not open the door to a May rate cut, as well as adding there is more economic data to come and updated forecasts for the May meeting. Nonetheless, there have been some increased expectations for a cut in May amid the recent global trade concerns owing to Trump tariffs and the US-China trade war with Australian big 4 bank NAB even calling for an oversized cut of 50bps in May and for the central bank to continue to lower the Cash Rate to 2.60% by February next year.

BOC ANNOUNCEMENT (WED): The prior BoC meeting saw the bank cut rates by 25bps to 2.75%, taking the target for the overnight rate to the centre of the neutral rate estimate, as according to Governor Macklem and the midpoint of the neutral rate estimate (2.25-3.25%). The BoC dropped forward guidance earlier in the year due to the uncertainties ahead. However, since Trump's tariff announcements - Canada (and Mexico) is not subject to reciprocal tariffs, but the economy is still subject to 25% tariffs in relation to the inflow of fentanyl into the US. These tariffs are only implemented on goods that are non-USMCA compliant, although energy and potash are still subject to 10% tariffs under the fentanyl and immigration tariffs. Trump has also said the 25% tariffs would drop to 12% if there were improvements under the flow of fentanyl. Tariffs on autos, steel, and aluminium do remain, while the US is planning to hike existing duties on Canadian lumber to 34% from 14.4%. Trump has since announced a 90-day pause for reciprocal tariffs, but given Canada was not subject to the reciprocal tariffs, the tariffs have not changed (according to a US official). Although the global risk-off tone has tempered following the pause, there is still uncertainty ahead, which could perhaps argue for a pause in the bank rate with the BoC now at the neutral rate. However, the latest labour market report was one of concern, while the BoC will be seeing the March inflation report on Tuesday, the day before the rate decision. However, market focus is still largely on increasing trade barriers from the US. Money markets currently price in 17bps of easing for the meeting next week, with 76bps priced for the remainder of the year. This implies a 68% probability of a rate cut next week (32% for no change), with three 25bp rate cuts fully priced through year-end. Note, this meeting will be accompanied by the Monetary Policy Report, which will incorporate the latest growth and inflation forecasts from the BoC, and its latest estimate of the output gap and neutral rate.

ECB ANNOUNCEMENT (THU): Expectations are for the ECB to cut the deposit rate by 25bps to 2.25%, according to 61/71 economists surveyed by Reuters (note, some of these forecasts may be considered out of date given the fluidity of the trade war). Financial markets have greater conviction over a 25bps rate cut and price such an outcome at 95%. The backdrop to the meeting has been dominated by US President Trump’s trade agenda. At the time of writing, US President Trump announced a 90-day pause in tariff actions and cut reciprocals to 10% for nations that asked for talks. Reports suggest that the EU is considering pausing its countermeasures on the US (due April 15th) for 90 days. Overall, the outlook for trade has improved over the past few sessions, however, it remains highly uncertain and therefore continues to suppress the growth outlook for the region. Accordingly, policymakers are set to take action by loosening monetary policy further. Note, an outsized move of 50bps is unlikely with ECB’s Simkus stating that he sees no need to talk about such an increment. The statement is likely to reiterate that monetary policy is becoming meaningfully less restrictive and the GC will follow a data-dependent and meeting-by-meeting approach. It remains to be seen whether the Bank will insert any additional language in lieu of the ongoing trade war. The upcoming meeting will not be accompanied by macro forecasts. Thereafter, market pricing has been particularly choppy given the volatility in markets. However, the next 25bps reduction is fully priced by July with 80bps of easing implied by year-end.

CBRT ANNOUNCEMENT (THU): The CBRT is expected to hold rates in its April meeting after recent political events encouraged selling in the TRY, leading to an ADHOC lift in the overnight rate. Since the last scheduled meeting, the Central Bank hosted an interim Monetary Policy Committee meeting where it pledged to limit depreciation pressure on the TRY, hiking the overnight lending rate from 44% to 46%. The accompanying commentary implied they will tighten monetary policy in case a significant and persistent deterioration in inflation is foreseen. This brings us to the recent CBRT survey, where the Bank revised its end of year CPI forecast higher, from 29.98% (prev. forecast 28.04%), along with a higher than previously forecast 12-month Repo Rate, seen at 29.37% (prev. 27.60%). Looking ahead, UniCredit says the bank could resume the rate-cutting cycle in June, should the depreciation pressure moderate as seasonal effects, including tourism revenues, will turn more supportive and lower its policy rate to 34% by the end of the year. They also attribute upside risks related to political tension, which might call for a higher real rate, while downside risks could be amplified in the event of a significant slowdown in economic activity.

REVIEWS

RBNZ REVIEW: The RBNZ delivered its fifth consecutive rate cut in which it lowered the OCR by 25bps to 3.50% as unanimously forecast, while it noted a further reduction in the OCR is appropriate and as the extent of tariffs becomes clearer, the Committee has scope to lower the OCR further. RBNZ also stated that global trade barriers weaken the outlook for global growth and having CPI close to the middle of the target band puts the committee in the best position to respond to developments. The Minutes from the meeting stated that future policy decisions will be determined by the outlook for inflationary pressure over the medium term and that the Committee noted the preceding cuts to the OCR have yet to have their full effect on the economy. Furthermore, it stated the monetary policy response to tariffs will focus on the medium-term implications for inflation but added that the implications of increased tariffs for global and domestic inflation are more ambiguous.

RBI REVIEW: RBI unsurprisingly lowered the Repurchase Rate by 25bps to 6.00%, as widely expected, at its meeting this week with the decision made unanimously, while it shifted its policy stance to accommodative from neutral to suggest further cuts ahead. RBI Governor Malhotra said the accommodative stance signals the intended direction of policy rates going forward and that going forward absent any shocks, MPC will only consider the status quo and a rate cut. The RBI also lowered its projections for FY26 real GDP growth to 6.5% from 6.7% and cut its FY26 CPI inflation forecast which is now seen at 4% vs 4.2% previously, as well as acknowledging that risks to growth projections are evenly balanced. Furthermore, the statement revealed that the MPC noted inflation is currently below the target which is supported by a sharp fall in food inflation and there is a decisive improvement in the inflation outlook. The central bank also noted that according to the projections, there is now a greater confidence of a durable alignment of headline inflation with the central bank’s 4% target over a 12-month horizon.